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REVISED SYSTEM OF NATIONAL ACCOUNTS

CHAPTER IX

THE USE OF INCOME ACCOUNTS

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IX. THE USE OF INCOME ACCOUNTS

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IX. THE USE OF INCOME ACCOUNTS

List of Acronyms

COFOG . . . . . Classification of the Functions of Government
NPI . . . . . non-profit institution

IX. THE USE OF INCOME ACCOUNTS

A. Introduction

1. The purpose of the Use of Income Account is to show how households, government units and non-profit institutions (NPIs) serving households allocate their disposable income between final consumption and saving. There are two versions of the Use of Income Account that correspond to two concepts of disposable income and consumption. In the first version, shown in table IX.1, attention is focussed on disposable income and the expenditure on consumption goods and services that can be met out of that income. In the second version, shown in table IX.2, attention is focussed on the consumption goods and services acquired and used by institutional units, especially households, whether acquired by expenditure or by social transfers in kind.

2. In the first version of the Use of Income Account, final consumption expenditure is subtracted from gross, or net, disposable income to obtain gross, or net, saving as the balancing item. In the second version, actual final consumption is subtracted from gross, or net, adjusted disposable income to obtain the same balancing item. In both accounts, in addition, there is an adjustment item that is needed to shift the change in net equity on pension funds from the pension funds to households.

3. As explained in the previous chapter, the adjusted disposable income of households is derived from their disposable income by adding the value of social transfers in kind receivable, while that for government units and NPIs is derived by subtracting the value of social transfers in kind payable. Similarly, the actual final consumption of households is derived from their final consumption expenditure by adding the value of social transfers in kind receivable, while the actual final consumption of government units and NPIs is derived by subtracting the value of social transfers in kind payable. It follows that saving is the same whether it is defined as disposable income less final consumption expenditure or as adjusted disposable income less actual final consumption. Saving, like disposable and adjusted disposable income, may have to be recorded gross of consumption of fixed capital because of the difficulty of measuring the latter. However, consumption of fixed capital is a cost of production and should be excluded, if possible.

4. Corporations do not make final consumption expenditures. They may purchase the same kinds of goods or services as households use for final consumption - e.g., electricity or food - but such goods or services are either used for intermediate consumption or provided to employees as remuneration in kind. It is assumed in the System that corporations do not make transfers of consumption goods or services to households. (See <chapter XIX on applications and extensions> for the treatment of expenditures by enterprises on behalf of employees that is recommended for countries in transition to market-oriented economies.) As corporations neither make nor receive social transfers in kind, it is also not possible to draw a meaningful distinction between their disposable and adjusted disposable incomes. It follows that both the Use of Disposable Income Account and the Use of Adjusted Disposable Income Account for corporations are only dummy accounts that

contain no entries for final consumption expenditure or actual final consumption. Apart from the adjustment item for pension funds referred to below, the gross or net saving of corporations must be equal to their gross or net disposable, or adjusted disposable, incomes. In other contexts, the saving of corporations is often described as the "retained earnings" or "undistributed incomes" of corporations.

1. The Use of Disposable Income Account

5. This account contains only two entries for transaction categories. Disposable income, the balancing item carried forward from the Secondary Distribution of Income Account, is recorded on the right-hand side of the account under resources, while final consumption expenditure is recorded on the left-hand side under uses. As just noted, the account is relevant mainly for the three sectors that make final consumption expenditures, namely the general government, NPIs serving households and household sectors, and, of course, for the total economy.

6. The balancing item for the account is saving. Before the balance is struck, however, one item is entered in order to shift a certain type of saving from one sector to another. This item, adjustment for the change in net equity of households on pension funds, completes the recording of pension contributions and benefits in the current accounts, as described in <chapter VIII on the secondary distribution of income>; it shifts the change in net equity on pension funds - a form of saving attributable to households - from financial corporations to households. The adjustment, which is described in more detail in <<paragraphs 14 - 16>> below, is shown on the right-hand side under resources for households and on the left-hand side under uses for financial corporations.

7. Final consumption expenditure is shown as a single figure in table IX.1, with individual consumption and collective consumption expenditure shown separately to bring out accounting inter-relationships described below. However, it is usually desirable to breakdown final consumption expenditure using a classification of expenditure by purpose or by type of good or service. Disaggregated expenditure data may be needed for various analytical or policy purposes. Most users will expect at least some degree of disaggregation, for example, between expenditures on goods or services or between expenditures on durable and non-durable goods.

8. As explained in later sections of this chapter, expenditures are attributed to the institutional units that bear the costs even if they are not the units to whom the goods or services are delivered. Thus, expenditures that government units or NPIs make on individual goods and services that they provide to households as social transfers in kind must be recorded as final expenditure incurred by government units or NPIs. Although they do not physically consume the goods and services provided as social transfer in kind, government units or NPIs are the units that pay for them and take the decisions about the amounts to be provided. Information about their

expenditure on such goods and services must therefore be recorded in the accounts of the System in conjunction with their disposable income. However, merely to record the expenditure is not sufficient when the goods and services are consumed by different units from those that control and finance the expenditure. In order to identify the units that benefit from their consumption it is necessary to recognise that the goods and services are in fact transferred to households. Actual final consumption must be recorded as well as final consumption expenditure.

2. The Use of Adjusted Disposable Income Account

9. Apart from the balancing item, saving, this account also contains only two other entries (and the adjustment item, which hereafter will not be mentioned in order to simplify the discussion). Adjusted disposable income, the balancing item brought forward from the Redistribution of Income in Kind Account, is recorded under resources, while actual final consumption is recorded under uses. The account is relevant only to government units, NPIs and households.

10. As already noted, the actual final consumption of households is obtained by augmenting their final consumption expenditure by the value of social transfers in kind receivable, while that for government units and NPIs is obtained by subtracting from their final consumption expenditure social transfers in kind payable. Assuming that social transfers in kind take place only between resident units, the total value of the transfers in kind receivable by resident households must equal the total value of those payable by government units and NPIs, so that the value of actual final consumption for the total economy must be equal to that of total final consumption expenditure.

11. The actual final consumption of households is intended to measure the value of the consumption goods acquired by households, whether by purchase or by transfer from government units or NPIs, and used by them for the satisfaction of their needs and wants. It is therefore a better indicator of their living standards than their final expenditure alone. In some countries, the value of the individual non-market goods and services provided to households as social transfers in kind may be quite large, depending upon the kinds of economic and social policies pursued by their governments, so that the value of the actual final consumption of households may exceed that of their expenditure by a significant margin. For these reasons, the actual final consumption of households has sometimes been described as their "enlarged" consumption or their "total" consumption, although these terms are not used in the System. The actual final consumption of the general government sector may, of course, be considerably smaller than government final consumption expenditure.

3. The relationship between the two versions of the Use of Income Account

12. The two versions of the Use of Income Account are not sequential or hierarchical. They are parallel accounts that serve different analytical or policy purposes. The values of the goods and services involved in social transfers in kind are recorded in two different ways in the System, both of which represent uses of resources by government units or NPIs:

- as final consumption expenditure, payable by government units or NPIs,

and

- as current transfers in kind, payable by government units or NPIs.

13. Although the difference between disposable and adjusted disposable income is attributable to social transfers in kind, disposable income should not be interpreted as if it were a measure of income available in cash. Its several non-cash elements, such as those associated with production for own consumption or remuneration in kind, were pointed out in <<chapter VIII on the secondary distribution of income (paragraphs)>>.

4. Adjustment for the change in the net equity of households on pension funds

14. In the System, the reserves of pension funds are viewed as being owned by the households with claims on the funds. In principle, therefore, the payments of pension contributions into the funds and the receipts of pensions by pensioners are not transfers between different institutional units. They constitute the acquisition and disposal of financial assets. However, this may not accord with the perception of the households concerned, especially pensioners' households, who tend to regard the pensions they receive as income in the form of transfers. Moreover, pensions received under social security schemes are in fact treated as current transfers in the System.

15. In order to present income information that may be more useful for analysing the behaviour of the households concerned, the payments of pension contributions under private funded and unfunded social insurance schemes and the receipts of pensions by pensioners' households under such schemes are recorded in the Secondary Distribution of Income Account as social contributions and social insurance benefits, respectively. They are therefore recorded as determinants of the disposable incomes of households.

16. However, in order to reconcile this treatment with the fact that households are treated elsewhere in the System as owning the reserves of pension funds, it is necessary to introduce an adjustment item to ensure that any excess of pension contributions over pension receipts (i.e., of "transfers" payable over "transfers" receivable) is not treated as if it

affected saving. In order to neutralize this effect, the difference between pension contributions and pension receipts is added to the disposable income, or adjusted disposable income, of households in the Use of Income Accounts before arriving at saving. In this way, the saving of households is the same as what it would be if pension contributions and pension rights were not recorded as current transfers in the Secondary Distribution of Income Account (and were treated in the same way as life insurance premiums and claims). This adjustment item is necessary in order to reconcile the saving of households with the change in their net equity on life insurance reserves and pension funds recorded in the Financial Account of the System. Opposite adjustments are, of course, needed in the Use of Income Accounts of the insurance enterprises or other institutional units administering the pension funds.

5. Saving

17. Saving is the balancing item in the two versions of the Use of Income Account. Its value is the same whether it is derived as disposable income less final consumption expenditure or as adjusted disposable income less actual final consumption.

18. As already noted, non-financial and financial corporations have no final consumption expenditure or actual final consumption. Their net saving is equal to their net disposable, or adjusted disposable, income (apart from the adjustment item for pension funds).

19. Saving represents that part of disposable income that is not spent on final consumption goods and services. It may be positive or negative depending on whether disposable income exceeds final consumption expenditure, or vice versa. Assuming that saving is positive, the unspent income must be used to acquire assets or reduce liabilities. In so far as unspent income is not used deliberately to acquire various financial or non-financial assets, or to reduce liabilities, it must lead to an increase in cash, the most liquid financial asset. If saving is negative, either some financial or non-financial assets must have been liquidated or some liabilities increased. Thus, saving provides the link between the current accounts of the System and the subsequent accumulation accounts.

20. If saving is zero, i.e., if final consumption expenditure equals disposable income, the institutional unit is not obliged to liquidate any assets or change any of its liabilities. As already indicated in the previous chapter, disposable income can therefore be interpreted as the maximum amount that an institutional unit can afford to spend on final consumption goods and services in the accounting period without having to reduce its cash, liquidate other assets or increase its liabilities.

B. Expenditures, Acquisitions and Uses

21. The distinction between final consumption expenditure and actual final consumption depends on the general distinction between expenditures on, and acquisitions of, goods and services, a distinction that applies to other types of activities, such as production and capital formation, as well as consumption. The purpose of this section is to explain not only how expenditure differs from acquisition but also how both of them differ from the actual or physical use of goods and services. The explanation emphasises consumption, but also refers to other types of activities.

1. Expenditures

22. Expenditures are defined as the values of the amounts that buyers pay, or agree to pay, to sellers in exchange for goods or services that sellers provide to them or to other institutional units designated by the buyers. The buyer incurring the liability to pay need not be the same unit that takes possession of the good or service. As already noted, it is common for government units or NPIs to pay for goods or services that the sellers provide to households. Moreover, as explained below, the liability incurred by the buyer does not necessarily have to be settled by a payment of cash.

a. The incidence of expenditures

23. In the System, expenditures are attributed to the units which ultimately bear the costs as distinct from the units that may make payments to the sellers. The unit making the payment is usually also the one that bears the cost, but this is not always the case. For example, one unit may pay a seller acting as the agent of another unit to whom the ownership of the good is transferred. In this case, the agent provides a short-term credit to the buyer that is extinguished when the agent is reimbursed. Another example is that of a household which purchases a good or service that it retains itself but is subsequently reimbursed out of social security funds for some or all of the amount spent. In this case, the amount reimbursed is treated as expenditure incurred by the social security fund.

b. The timing of expenditures

24. Expenditures on goods or services occur at the times when buyers incur liabilities to sellers. These are usually the times when:

- the ownership of the good is transferred from the seller to the new owner,

or

- the delivery of a service by the producer is completed to the satisfaction of the consumer.

25. The times at which sellers are actually paid for the goods or services they deliver are not necessarily the times at which the expenditures occur. As explained in <chapter III on transactions and accounting rules>, payments may either precede, or lag behind, the actual deliveries of the goods or services sold. For this reason, the values of expenditures are measured by the values of the amounts receivable and payable at the times the expenditures are incurred. When payments are advanced or deferred, there must be consequential changes in the financial assets or liabilities (other than cash) of the two units concerned at the time the change of ownership take place or the service is delivered.

26. The precise moment at which the ownership of a good is transferred, or delivery of service completed to the satisfaction of the consumer, may not be easy to determine in practice in some cases. It may be perceived differently, or even disputed, by the two parties concerned.

c. Imputed expenditures

27. By mutual agreement between the buyer and the seller, the liability incurred by the buyer may be discharged by providing a good, service or asset other than cash in exchange. For example, goods or services may be exchanged for each other in barter transactions, or employees may provide labour in exchange for goods or services received as remuneration in kind.

28. Since the buyers do not pay cash, or expect to pay cash, values have to be imputed for the expenditures using the prices of similar goods or services sold for cash on the market. For example, workers receiving remuneration in kind are treated as making expenditures equal to the market value of the goods or services received, the costs of the expenditures being met out of the income they receive as remuneration in kind. In barter, both parties to a transaction must be recorded as making expenditures. As the market values of the goods or services bartered may not be the same, the values imputed for the expenditures should be a simple average of the estimated market values of the goods or services exchanged, so that equal expenditures are recorded for both parties.

29. When institutional units retain goods or services produced by themselves for their own consumption or gross fixed capital formation, they clearly bear the costs themselves. They are therefore recorded as incurring expenditures whose values have to be imputed using the market prices of similar goods or services or their costs of production in the absence of suitable market prices.

30. In the interests of brevity, an expenditure for which a value has to be imputed may be described as an "imputed expenditure". Strictly, however, the

imputation refers to the value of goods or services involved and not to the expenditure itself.

d. Sales of existing goods as negative expenditures

31. An existing good is a good which has already been disposed of to a user by the unit that produced or imported it, either in the current or a previous period. Most existing goods are used structures and machinery and equipment or second-hand consumer durables (<<see paragraph 38 below>>), but they may include some unused goods. When an existing good is resold, the amount received from its sale is recorded as negative expenditure on the part of the seller. Durable goods may have to be reclassified as a result of being resold; for example, the sale to a household of an automobile previously used by an enterprise for business purposes is recorded as negative gross capital formation and positive household final consumption expenditure.

2. Acquisitions

32. Goods and services are acquired by institutional units when they become the new owners of the goods or when the delivery of services to them is completed. The value of the goods or services acquired by an institutional unit or sector consists of the value the goods or services acquired through its expenditure plus the value of goods or services received through transfers in kind less the value of goods or services transferred to other units. Transfers in kind made to other units are recorded as negative acquisitions. This statement needs to be qualified to the extent that several categories of current transfers--namely current transfer within general government, current international co-operation, and miscellaneous current transfer--may include some transfers in kind. The transfers in kind are treated as if they were transfers in cash. Accordingly, the values of the goods are actually recorded as expenditures by the institutional units or sectors that acquire them.

33. As just described, acquisition can refer to goods and services of any kind. Producers may, for example, acquire structures and machinery and equipment by their own expenditure (including imputed expenditure for own-account capital formation) and by capital transfers in kind. The System gives special recognition to the importance of acquisition for purposes of final consumption; it defines the total value of goods and services acquired for purposes of final consumption as actual consumption.

34. The times at which goods and services are acquired are when the change of ownership occurs or the delivery of the services is completed. Acquisitions are valued at the prices paid by the units that incur the expenditures.

3. Uses

35. Goods and services are used when institutional units make use of them in a process of production or for the direct satisfaction of human needs or wants.

36. In the case of goods, the distinction between acquisition and use is clear. Producers acquire goods which they may hold for varying periods of time before physically using them up in processes of production. Households may hold consumption goods before using them for the satisfaction of their needs or wants. Few goods are so perishable that they have to be used immediately. For example, most foodstuffs need not be eaten until some time after they have been acquired.

37. In the case of services, however, the distinction between acquisition and use may not be relevant in a practical sense. The situations of units to whom services are delivered are automatically affected by those services and no further action may be needed in order to benefit from them.

a. Durable versus non-durable goods

38. In the case of goods, the distinction between acquisition and use is analytically important. It underlies the distinction between durable and non-durable goods extensively used in economic analysis. In fact, the distinction between durable and non-durable goods is not based on physical durability as such. Instead, the distinction is based on whether the goods can be used once only for purposes of production or consumption or whether they can be used repeatedly, or continuously. For example, coal is a highly durable good in a physical sense, but it can be burnt only once. A durable good is therefore defined as one which may be used repeatedly or continuously over a period of more than a year, assuming a normal or average rate of physical usage. A consumer durable is a good that may be used for purposes of consumption repeatedly or continuously over a period of a year or more.

b. Consumption as an activity

39. The activity of consumption consists of the use of goods and services for the satisfaction of individual or collective human needs or wants. A consumption function that expresses utility as a function of the quantities of goods and services consumed describes the use of those goods and services and is not concerned with expenditures or acquisitions. In order to measure consumption as an activity, it would be necessary to adopt accounting procedures similar to those used in a production account, where a clear distinction is drawn between purchases of goods to be used in production and their use as inputs.

40. In practice, the System measures household consumption only by expenditures and acquisitions. This means that the only way in which the

repeated use of durables by households could be recognised would be to extend the production boundary by postulating that the durables are gradually used up in hypothetical production processes whose outputs consist of services. These services could then be recorded as being acquired by households over a succession of time periods. However, durables are not treated in this way in the System.

C. Consumption Goods and Services

41. A consumption good or service is defined as a good or service that is used without further transformation in production as defined in the System by households, NPIs serving households or government units for the direct satisfaction of individual needs or wants or the collective needs of members of the community.

42. An individual consumption good or service is one that is acquired by a household and used to satisfy the needs and wants of members of that household. Individual goods and services can always be bought and sold on the market, although they may also be provided free as transfers in kind. In practice, all goods and most services are individual.

43. A collective consumption service is a service provided simultaneously to all members of the community or to all members of a particular section of the community, such as all households living in a particular region. Collective services are automatically acquired and consumed by all members of the community, or group of households in question, without any action on their part. Typical examples are public administration and the provision of security, either at a national or local level. Collective services are the "public goods" of economic theory. By their nature, collective services cannot be sold to individuals on the market, and they are financed by government units out of taxation or other incomes. The differences between individual and collective consumption goods or services are elaborated further in <<paragraphs 80-89>>.

44. Some of the services provided by NPIs to the members of the associations that own them have some of the characteristics of collective services; for example, some research carried out by NPIs may benefit all members of the community. However, most of the services provided by NPIs are individual in nature and, for simplicity, all the services provided by NPIs are treated by convention as individual.

D. Household Final Consumption Expenditure

1. Introduction

45. Household final consumption expenditure consists of expenditure incurred by resident households on consumption goods or services. Final consumption expenditure excludes expenditure on tangible assets in the form of dwellings or valuables. Dwellings are goods used by their owners to produce housing services. Expenditure on dwellings by households therefore constitutes gross fixed capital formation. When dwellings are rented by their owners, rentals are recorded as output of housing services by owners and final consumption expenditure by tenants. When dwellings are occupied by their owners, the imputed value of the housing services enters into both output and final consumption expenditure of the owners. Valuables are expensive durable goods that do not deteriorate over time, are not used up in consumption or production, and are acquired primarily as stores of value. They consist mainly of works of art, precious stones and metals and jewellery fashioned out of such stones and metals. Valuables are held in the expectation that their prices, relative to other goods and services, will tend to increase over time, or at least not decline. Although the owners of valuables may derive satisfaction from possessing them, they are not used up in the way that household consumption goods, including consumer durables, are used up over time.

46. The treatment of expenditure in some specific situations and on certain specific types of goods and services is outlined in the following sections.

2. Expenditures by households owning unincorporated enterprises

47. When a household includes one or more persons who own an unincorporated enterprise, it is necessary to ensure that only expenditure for the direct satisfaction of human needs and wants is included in household final consumption expenditure; all expenditure incurred for business purposes are excluded from household consumption expenditure. This may not be easy in practice when the same good or service (for example, electricity or other fuels) may be used equally well for business purposes or for final consumption. Business expenditures cannot therefore be identified purely on the basis of the type of good or service purchased. Particular care needs to be exercised in the case of farms, including subsistence farms, where goods that have been purchased, or produced on own account, may be used either for household final consumption or for intermediate consumption; for example, corn or potatoes may be consumed by members of the households, fed to animals or used as seeds for future crops.

48. Care is also needed with purchases of consumer durables such as vehicles, furniture, or electrical equipment which are to be classified as gross fixed capital formation by the enterprise when purchased for business purposes but as final consumption expenditure when purchased for the personal use of household members. While the nature of the distinction may be clear in

principle, it is often blurred in practice, especially when the owner of the business uses a durable good, such as a vehicle, partly for business purposes and partly for personal benefit. In such cases, the expenditure on the purchase of the durable should be split between gross fixed capital formation by the enterprise and household final consumption expenditure in proportion to its usage for business and personal purposes. When durables are purchased wholly or partly for business purposes, the decline in their value attributable to their use within the business should be recorded under the consumption of fixed capital of the unincorporated enterprise.

3. Barter transactions

49. The values of the goods or services acquired in barter transactions constitute imputed expenditures. Values have to be imputed for goods or services exchanged in barter transactions equal to their market values, or their average market values, if the market values of the goods or services exchanged are not the same. Thus, when the goods or services obtained through barter are used for household consumption their imputed values must be recorded as household final consumption expenditure. However, when the ownership of an existing good is transferred in a barter transaction, negative imputed expenditure must be recorded for the unit offering the good, in the same way that sales of existing goods are recorded as negative expenditures.

4. Expenditures on goods and services received as income in kind

50. Income in kind received by employees is measured by the value of the goods and services provided by employers to their employees in remuneration for work done. This income is simultaneously spent by the employees on the goods and services in question. Thus, the values of the goods and services must be recorded as final consumption expenditure incurred by households as well as income in kind.

51. A distinction has to be made between goods or services provided to employees as remuneration in kind and goods or services provided because they are needed at work, the latter constituting intermediate consumption by the enterprise. In principle, the distinction is clear. Goods or services that employers are obliged to provide to their employees to enable them to carry out their work, such as tools, equipment, special clothing, etc., constitute intermediate consumption. On the other hand, goods or services that employees are able to use in their own time for the direct satisfaction of their needs or wants, or those of their families, constitute remuneration in kind. In practice, there are inevitably borderline cases, such as uniforms that must be worn at work but are also worn extensively by employees away from work. A detailed listing of the kinds of goods and services that are included in remuneration in kind is given in the section on compensation of employees in <chapter VII on the primary distribution of income>.

5. Expenditures on goods and services produced on own account

52. Household final consumption expenditure includes the imputed values of goods or services produced as outputs of unincorporated enterprises owned by households that are retained for consumption by members of the household. The production of services for own consumption within the same household falls outside the production boundary of the System, except for housing services produced by owner-occupiers and services produced by employing paid domestic staff. As the costs of producing goods or services for own consumption are borne by the households themselves, it is clear that the expenditures on them are also incurred by households, even though their values must be imputed. The main types of goods and services produced and consumed within the same household are as follows:

(1) food or other agricultural goods produced for own final consumption by farmers, including subsistence farmers, or others for whom agricultural production is only a secondary, or even leisure, activity;

(2) other kinds of goods produced by unincorporated enterprises owned by households that are consumed by members of the same households;

(3) housing services produced for own final consumption by owner-occupiers (discussed further below);

(4) domestic or other services produced for own final consumption by households that employ paid staff for this purpose - servants, cooks, gardeners, chauffeurs, etc.

Values are imputed for these goods or services on the basis of current market prices, or by costs of production when suitable prices are not available, except for the services of paid staff; services of paid staff, by convention, are valued simply by the compensation of employees paid, in cash and in kind.

6. Expenditures on particular types of goods and services

a. Expenditures on financial intermediation services

53. In principle, values must be imputed for the expenditures which households incur on services provided by financial intermediaries for which no explicit charges are made. Expenditures on services for which financial intermediaries do make charges are recorded in the usual way.

(i) Financial intermediation services, except insurance and pension fund services

54. Financial intermediaries except insurance corporations and pension funds, which include all corporations engaged in banking, may not charge households (or their other clients) explicitly for some of the services they provide. Instead, the nominal rates of interest they charge households on advances, overdrafts, mortgages or other loans are higher than they themselves pay on the deposits that households hold with them. The differences between the various rates of interest charged and paid constitute an indirect method of charging customers for services. As already explained in <chapter VI on the production accounts>, the total value of these services is estimated as the difference between the property income received by these financial intermediaries (excluding income from the investment of their own funds) less the interest they pay to creditors. This total value, in principle, should then be allocated to the household and other sectors.

55. In an allocation, the imputed values of the services are recorded as expenditure on the services of financial intermediaries in the Use of Income Account for households. The interest recorded in the Primary Distribution of Income Account for households as being received from financial intermediaries is equal to the amount actually received plus the imputed value the service charge paid on household lending. The amount of interest recorded as paid to financial intermediaries is equal to the amount actually paid less the imputed value of the service charge on household borrowing. Household saving is not affected.

(ii) Insurance and pension fund services

56. Only relatively small amounts of the premiums paid by households on insurance policies contribute to covering the services rendered by insurance corporations in arranging the insurance. Most of the premiums paid on non-life insurance policies are current transfers, while most of the premiums paid on life insurance policies constitute the acquisition of financial assets by households. The way in which the service charges are estimated is explained in <chapter VI on production accounts>. The service charges incurred by households in respect of the management of pension funds are assumed to be equal to the administrative expenses of managing the funds.

57. The total service charges of insurance corporations or pension funds may be allocated among different sectors, sub-sectors or institutional units in proportion to the premiums or pension contributions paid. The amounts paid by households are recorded as final consumption expenditure except to the extent that the insurance services are linked to the activity of unincorporated enterprises.

b. Services of dwellings, repairs and improvements

(i) Services of owner-occupied dwellings

58. Persons who own the dwellings in which they live are treated as owning unincorporated enterprises that produce housing services that are consumed by the household to which the owner belongs. The housing services produced are deemed to be equal in value to the rentals that would be paid on the market for accommodation of the same size, quality and type. The imputed value of the housing services are recorded as final consumption expenditure of the owners.

(ii) Decoration, maintenance and repair

59. As already noted in <chapter VI on the production accounts>, (<<paragraphs to >>), expenditures that an owner-occupier incurs on decoration, maintenance and repair of the dwelling should not be treated as part of household final consumption expenditure but as intermediate expenditure incurred in the production of housing services. These expenditures may consist either of payments for services provided by professional builders or decorators or purchases of materials for "do-it-yourself" repairs and decoration. In the latter case, simple, routine repairs and interior decoration of a kind carried out by tenants as well as owners may be treated as falling outside the production boundary. Purchases of materials used for such repairs or decoration should therefore be treated as final consumption expenditure.

(iii) Major improvements

60. Expenditures on major improvements - that is, reconstructions, renovations or enlargements - to dwellings are not classed as repairs and maintenance. They are excluded from household consumption expenditure and are treated as gross fixed capital formation on the part of the owners of those dwellings.

c. The repair and maintenance of durables

61. Expenditures on the repair and maintenance of consumer durables, including vehicles, are treated in the same way as simple repairs to dwellings. They constitute final consumption expenditure whether the repairs and maintenance are carried out by specialist producers or by members of the household as "do-it-yourself" activities. In the latter case, only the values of the materials purchased should be included in household consumption expenditure.

d. Licences and fees

62. Households make payments to government units to obtain various kinds of licences, permits, certificates, passports, etc. and in some cases it is not clear whether the government units actually provide services in return, such as testing or inspection, or whether the payments are de facto taxes. As explained in <chapter VII on the secondary distribution of income>, <<paragraphs to >>, it has been decided to settle the treatment of certain borderline cases on the basis of the treatments most commonly adopted by countries. The following convention, based on the practices followed in the majority of countries, has been adopted: payments by households for licences to own or use vehicles, boats or aircraft and also licences to hunt, shoot or fish are treated as taxes, while payments for all other kinds of licences, permits, certificates, passports, etc., are treated as purchases of services and included in household consumption expenditure.

7. The classification of household final consumption expenditure

63. Household final consumption expenditure is typically a large aggregate covering a wide range of goods and services. It is thus usually desirable to break down the figure. The Central Product Classification may be used for a breakdown by type of good or service. The Classification of Individual Consumption by Purpose may be used for a breakdown, as its name implies, by purpose or function, e.g., food, health and education services. <Chapter XVIII on functional classifications> briefly describes this classification and how its inclusion in the System facilitates several kinds of analyses.

8. The timing and valuation of household final consumption expenditure

a. Timing

64. In accordance with the general principles adopted in the System, expenditures should be recorded when the payables are created, that is, when the purchaser incurs a liability to the seller. This implies that expenditure on a good is to be recorded at the time its ownership changes while expenditure on a service is recorded when the delivery of the service is completed.

65. Expenditures on a good under a hire purchase or similar credit agreement (and also under a financial lease) should be recorded at the time the good is delivered even though there is no legal change of ownership at this point. De facto, the purchaser exercises the rights and responsibilities of ownership from the time the good is delivered under a hire purchase agreement, financial lease or similar method of financing. A change of ownership is therefore imputed at the time of delivery. The purchaser must also be shown in the financial accounts as incurring a liability to the hire purchase or finance corporation.

b. Valuation

66. Household expenditure is recorded at market prices: that is, the *purchasers' prices paid by households* including any taxes on products which may be payable at the time of purchase. As defined in <chapter VI on the production accounts>, <<paragraphs to >>, the purchaser's price of a good is the price paid to take delivery of the good at the location specified by the purchaser. It includes any delivery charges incurred by the purchaser not already included in the seller's invoice price.

67. Different households may pay different market prices for identical products because of market imperfections. Price differences may persist because households may not consider it worthwhile to seek out the outlets selling at the lowest prices. They may not even be aware that price differences exist, or they may have imperfect information because the costs of searching for the retail outlets selling at the lowest prices may be too great. Another reason for the persistence of price differences is that many service producers deliberately practice price discrimination by charging different households different prices for identical services - e.g., by charging lower prices to pensioners or people with low incomes. As services cannot be retraded, price discrimination is extremely common, or even prevalent, among service producers. Household expenditures are nevertheless recorded at the prices actually paid, even though this may mean that goods and services may not be valued uniformly.

68. Apparent price differences between the same goods or services are often due to differences in quality or in the terms or conditions of sale. For example, lower prices are often charged for bulk purchases of goods or off-peak purchases of services. Such expenditures must, of course, be recorded at the prices actually paid, that is, after deducting from the standard prices or charges any discounts for bulk or off-peak purchases.

(i) Valuation of purchases on credit

69. The market, or purchaser's, price does not include any interest or service charges that may be added when the seller arranges for credit to be provided to the purchaser. Similarly, the purchaser's price does not include any extra charges which may be incurred as a result of failing to pay within the period stated at the time the purchases were made, such charges being effectively interest payments on the credit extended by the seller.

(ii) Expenditures by resident and non-resident households

70. Resident households make expenditures while travelling abroad, while non-resident households may make expenditures inside the economic territory of a country. Household final consumption expenditure in the System refers to

the expenditure incurred by resident households, whether that expenditure is incurred within the economic territory or abroad.

71. In order to calculate total household final consumption expenditure it may be convenient to calculate the total expenditure of all households, whether resident or not, within the economic territory and to adjust this figure by adding expenditures by residents abroad and subtracting expenditures by non-residents within the economy territory. Expenditures by residents abroad are included in imports, while expenditures by non-residents are exports. However, while the total expenditures by all households within the economic territory may be used for calculation in this way, it is not a recognised aggregate within the System.

E. Household Actual Final Consumption

72. Household actual final consumption consists of the consumption goods or services acquired by individual households by expenditures or through social transfers in kind received from government units or NPIs. The value of household actual final consumption may be obtained as the sum of three components:

(1) the value of households' expenditures on consumption goods or services;

(2) the value of the expenditures incurred by government units on individual consumption goods or services provided to households as social transfers in kind;

(3) the value of the expenditures incurred by NPIs on individual consumption goods or services provided to households as social transfers in kind.

73. The values of expenditures on social transfers incurred by government units or NPIs are equal to imputed values of the goods or services supplied to households less the amounts of any expenditures incurred by households when prices that are not economically significant (see <chapter VI on production accounts>, << paragraph >>) are charged instead of providing the goods or services completely free.

74. The term "consumption" on its own can be ambiguous and misleading in economics as sometimes it refers to consumption expenditures, sometimes to acquisitions of consumption goods and services and sometimes to the physical use of the goods and services for the direct satisfaction of human needs or wants. By distinguishing between consumption expenditure and actual final consumption, such ambiguity can be avoided. When consumption is recorded on an expenditure basis, the purpose is to identify the institutional units that incur the expenditures and hence control and finance the amounts of such expenditures. When consumption is recorded on an acquisitions basis, the purpose is to identify the units which actually acquire the goods and services

and benefit from their use, either immediately or subsequently. It should be emphasised, however, that total final consumption is the same on the two bases.

F. Consumption Expenditures Incurred by General Government and NPIs Serving Households

75. The treatment of consumption expenditures incurred by general government and NPIs serving households is the same way so that it is convenient to take them together. Expenditures on a wide range of consumption goods and services are incurred by general government or by NPIs, either on collective services on selected individual goods or services. These expenditures are financed principally out of taxation or other government revenues or out of subscriptions, contributions or donations in the case of NPIs serving households.

76. The consumption expenditures of general government and NPIs can be classified in several ways. In particular, they may be classified:

(1) according to whether the goods or services have been produced by market or non-market producers;

(2) according to whether the expenditures are on collective services or individual goods or services;

(3) by function or purpose as classified by the Classification of the Functions of Government (COFOG);

(4) by type of good or service as classified by the Central Product Classification.

1. Expenditures on the outputs of market and non-market producers

77. As expenditures on the outputs of non-market producers account for most of the final consumption expenditure by governments and NPIs, it is appropriate to take them first.

a. Expenditures on the outputs of non-market producers

78. It is important to distinguish between expenditures made by general government or NPIs on the outputs of non-market producers - i.e., the goods, individual or collective services they actually produce - and the intermediate expenditures and other costs incurred by non-market producers owned by general government or NPIs in the course of producing those goods or services. The distinction between the inputs to, and outputs from, non-market processes of production needs to be emphasised because the final consumption expenditure made by general government or NPIs must be incurred on the outputs. The

values of these expenditures are equal to the imputed values of the non-market outputs less the values of any receipts from sales. These receipts may be derived from sales of some goods or services at prices that are not economically significant or from sales of a few goods or services at prices based on their costs of production (sales of secondary market output).

b. Expenditures on consumption goods or services produced by market producers

79. Government units and NPIs also purchase consumption goods and services produced by market producers that are supplied directly to households. The role of the government unit or NPI is confined to paying for the goods or services and ensuring that they are distributed to households as social transfers in kind. The government unit or NPI does not engage in any further processing of such goods. The values of the goods or services distributed in this way will be recorded under social benefits in kind, including social assistance benefits in kind.

2. Expenditures on individual and collective goods and services

80. The consumption expenditures incurred by government units and NPIs serving households have to be divided into those incurred for the benefit of individual households and those incurred for the benefit of the community as a whole, or particular sections of the community.

a. Individual goods or services

81. Individual goods and services are essentially "private", as distinct from "public" goods. They have the following characteristics:

(1) It must be possible to observe and record the acquisition of the good or service by an individual household or member thereof and also the time at which it took place;

(2) The household must have agreed to the provision of the good or service and take whatever action is necessary to make it possible - for example, by attending a school or clinic;

(3) The good or service must be such that its acquisition by one household or person, or possibly by a small, restricted group of persons, precludes its acquisition by other households or persons.

The reason for including the reference to a small, restricted group of persons is that certain services are provided to small groups of people simultaneously; for example, several persons may travel in the same bus, train, ship or plane or attend the same class, lecture, concert or theatre performance. However, these are still essentially individual services if

there is a limit on the number of individuals who can consume them. Other members of the community are excluded and derive no benefit from them.

82. From a welfare point of view, the important characteristic of an individual good or service is that its acquisition by one household, person or group of persons brings no (or very little) benefit to the rest of the community. While the provision of certain individual health or education services (for example, vaccination or immunisation) may bring some external benefits to the rest of the community, in general only the individuals concerned benefit. Thus, when a government unit or NPI incurs expenditures on the provision of individual goods or services, it must decide not only how much to spend in total but how to allocate, or distribute, the goods or services among individual members of the community. From the point of view of economic and social policy, the way in which they are distributed may be as important as the total amount spent.

b. Collective services

83. Most goods can be privately owned and are individual in the sense used here. On the other hand, certain kinds of services can be provided collectively to the community as a whole. The characteristics of these collective services may be summarised as follows:

(1) Collective services can be delivered simultaneously to every member of the community or of particular sections of the community, such as those in a particular region of locality.

(2) The use of such services is usually passive and does not require the explicit agreement or active participation of all the individuals concerned.

(3) The provision of a collective service to one individual does not reduce the amount available to others in the same community or section of the community. There is no rivalry in acquisition.

84. The collective services provided by government consist mostly of the provision of security and defence, the maintenance of law and order, legislation and regulation, the maintenance of public health, the protection of the environment, research and development, and so on. All members of the community can benefit from such services. As the individual usage of collective services cannot be recorded, individuals cannot be charged according to their usage or the benefits they derive. There is market failure and collective services must be financed out of taxation or other government revenues.

85. The services provided by NPIs are often confined to the members of the associations that control them, although they may also provide individual goods or services to third parties. Many NPIs are only concerned with protecting the interests or welfare of their members or providing

recreational, sporting or cultural facilities which households or persons cannot otherwise easily obtain for themselves acting individually. Although NPIs may provide services to their members in groups, the services are essentially individual rather than collective. In general, persons other than their members are excluded and derive no benefit from the services provided. Therefore, as noted in <<paragraph 44>>, all the services provided by NPIs are by convention treated as individual.

c. The borderline between individual and collective services

86. Expenditures incurred by governments at a national level in connection with individual services such as health and education are to be treated as collective when they are concerned with the formulation and administration of government policy, the setting and enforcement of public standards, the regulation, licensing or supervision of producers, and so on. For example, the expenditures incurred by Ministries of Health or Education at a national level are to be included in collective consumption expenditures as they are concerned with general matters of policy, standards and regulation. On the other hand, any overhead expenses connected with the administration or functioning of a group of hospitals, schools, colleges or similar institutions are to be included in individual expenditures. For example, if a group of private hospitals has a central unit which provides certain common services such as purchasing, laboratories, ambulances, or other facilities, the costs of these common services would be included in the prices charged to patients. The same principle must be followed when the hospitals are non-market producers: all the costs which are associated with the provision of services to particular individuals, including those of any central units providing common services, should be included in the value of expenditures on individual services.

d. The classification of individual and collective government expenditures

87. The Classification of the Functions of Government is a classification of transactions designed to apply to general government and its subsectors. This classification, which is described briefly in <chapter XVIII on functional classifications>, is the basis in the System for distinguishing at a practical level between expenditure by government on individual services and collective services. By convention, all government final consumption expenditure, except for that on general administration, regulation, research, etc., under each of the following headings should be treated as expenditures on individual services:

04 Education
05 Health
06 Social Security and Welfare
08.01 Sport and recreation
08.02 Culture

In addition, expenditures under the following sub-headings should also be treated as individual when they are important:

07.11 part of the provision of housing
07.31 part of the collection of household refuse
12.12 part of the operation of transport system.

e. Non-market services to enterprises

88. Many government expenditures benefit enterprises as much as households; expenditures on the cleaning, maintenance and repair of public roads, bridges, tunnels, etc. including the provision of street lighting are examples. These are individual services whose consumption can be monitored and for this reason they are frequently provided on a market basis by charging tolls on road usage. However, it would be difficult to separate the services provided free to households from those provided free to enterprises and, by convention, all these expenditures are treated as collective final expenditure.

89. Enterprises also benefit from a number of genuinely collective services such as the research and development undertaken by non-market producers, the provision of security by the police, fire services and so on. The usage of such collective services by individual enterprises cannot be recorded, so that expenditures on such services have to be treated as government final expenditure.

G. Actual Final Consumption of General Government

90. As already noted, all the services provided by NPIs are treated as individual even though some are partly collective in nature. All the goods and services covered by the final expenditures of NPIs are therefore assumed to be provided to individual households as social transfers in kind. It follows that NPIs have no actual final consumption, so that their adjusted disposable income is equal to their saving.

91. The value of the actual final consumption of government units is taken to be equal to the value of the expenditures they incur on collective services. Although collective services benefit the community as a whole, or certain sections of the community, their actual final consumption cannot be allocated to individual households, or even to groups of households such as sub-sectors of the household sector. It is therefore attributed to the same government units that incur the corresponding expenditures. As government final consumption expenditure must be either individual or collective, the value of the actual final consumption of general government is equal to the value of its total final consumption expenditure less its expenditure on individual goods or services provided as social transfers in kind to households.

92. The identification and measurement of government actual final consumption serves two main analytical or policy purposes:

(1) Collective services can be identified with "public goods" as defined in public finance and economic theory. While it may be technically possible to charge individual consumers of certain collective services according to their usage or benefits they derive, the transactions costs of so doing would be prohibitively high, leading to market failure. This provides an economic, rather than political, rationale for government intervention as the provision of such services has to be financed out of taxation or other government revenues.

(2) Collective services do not provide a mechanism for redistributing resources among individual households within an economy. As redistribution may be one of the main economic objectives of government policy, it is useful to separate the collective services which do not serve this purpose from the individual goods and services which are ultimately channelled to individual households, even though paid for by government.

H. Final Consumption Expenditure and Actual Final Consumption: A Summary

93. The purpose of this section is to summarise the conceptual inter-relationship between the main consumption aggregates for the three sectors in which final consumption takes place, namely the household sector, the NPI sector and the general government sector. On a practical level, it may be noted that each of the aggregates, whether referring to consumption expenditure or actual final consumption, has to be derived from data on expenditures.

1. The expenditure aggregates

(1) Household final consumption expenditure

This consists of the expenditure, including imputed expenditure, incurred by resident households on individual consumption goods and services.

(2) Final consumption expenditure of NPIs serving households

This consists of the expenditure, including imputed expenditure, incurred by resident NPIs serving households on individual consumption goods and services.

(3) Government final consumption expenditure

This consists of expenditure, including imputed expenditure, incurred by general government on both individual consumption goods and services and collective consumption services. This expenditure may be divided into:

(3.1) Government expenditure on individual consumption goods and services

(3.2) Government expenditure on collective consumption services

2. Actual final consumption

94. It may be noted that NPIs have no actual final consumption, as already explained. Thus, actual final consumption consists of that of households and general government.

a. Actual final consumption of households

95. This is measured by the value of all the individual consumption goods and services acquired by resident households. There are three sets of goods and services entering into household actual final consumption:

(1) those acquired through expenditure by households themselves: their value is given by item (1) above;

(2) those acquired as social transfers in kind from NPIs: their value is given by item (2) above;

(3) those acquired as social transfers in kind from general government: their value is given by item (3.1) above.

b. Actual final consumption of general government

96. This is measured by the value of the collective consumption services provided to the community, or large sections of the community, by general government. Its value is given by item (3.2) above.

3. Total final consumption in the economy

97. Total final consumption in the economy may be viewed from two angles. It may defined from the expenditure side as the total value of all expenditures on individual and collective consumption goods and services incurred by resident households, resident NPIs serving households and general government units. Or, it may be defined in terms of actual final consumption as the value of all the individual goods and services acquired by resident

households plus the value of the collective services provided by general government to the community or large sections of the community.

98. The coverage of the goods and services is the same in both cases. In order to ensure the values of the two aggregates are the same, the goods and services acquired by resident households through transfers in kind must always be valued at the same prices at which they are valued in the expenditure aggregates and the time of recording the good and services acquired by transfers in kind must be the same as the time of recording in the expenditure aggregates.

TABLE II.1 ACCOUNT II.4.1: USE OF DISPOSABLE INCOME

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USES								RESOURCES					
S.1 TOTAL ECONOMY	S.15 NON PROFIT INSTITUTIONS SERVING HOUSEHOLDS	S.14 HOUSEHOLDS	S.13 GENERAL GOVERNMENT	S.12 FINANCIAL CORPORATIONS	S.11 NON-FINANCIAL CORPORATIONS	TRANSACTIONS AND BALANCING ITEMS		S.11 NON-FINANCIAL CORPORATIONS	S.12 FINANCIAL CORPORATIONS	S.13 GENERAL GOVERNMENT	S.14 HOUSEHOLDS	S.15 NON PROFIT INSTITUTIONS SERVING HOUSEHOLDS	S.1 TOTAL ECONOMY
						B.6g	Disposable income, gross						
						B.6n	DISPOSABLE INCOME, NET						
						P.3	Final consumption expenditure						
						P.31	Individual consumption expenditure						
						P.32	Collective consumption expenditure						
						D.8	Adj. for the change in net equity of households on pension funds						
						B.8g	Saving, gross						
						K.1	Consumption of fixed capital						
						B.8n	SAVING, NET						

TABLE II.2 ACCOUNT II.4.2: USE OF ADJUSTED DISPOSABLE INCOME

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USES

S.1 TOTAL ECONOMY	S.15 NON PROFIT INSTITUTIONS SERVING HOUSEHOLDS	S.14 HOUSEHOLDS	S.13 GENERAL GOVERNMENT	S.12 FINANCIAL CORPORATIONS	S.11 NON-FINANCIAL CORPORATIONS		TRANSACTIONS AND BALANCING ITEMS
						B.7g	Adjusted disposable income, gross
						B.7n	ADJUSTED DISPOSABLE INCOME, NET
						P.4	Actual final consumption
						P.41	Actual individual consumption
						P.42	Actual collective consumption
						D.8	Adj. for the change in net equity of households on pension funds
						B.8g	Saving, gross
						K.1	Consumption of fixed capital
						B.8n	SAVING, NET

RESOURCES

S.11 NON-FINANCIAL CORPORATIONS	S.12 FINANCIAL CORPORATIONS	S.13 GENERAL GOVERNMENT	S.14 HOUSEHOLDS	S.15 NON PROFIT INSTITUTIONS SERVING HOUSEHOLDS	S.1 TOTAL ECONOMY